



Background Briefing

SCHOOL AID

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January 2012

The fiscal information in this background briefing is based on data through January 13, 2012.

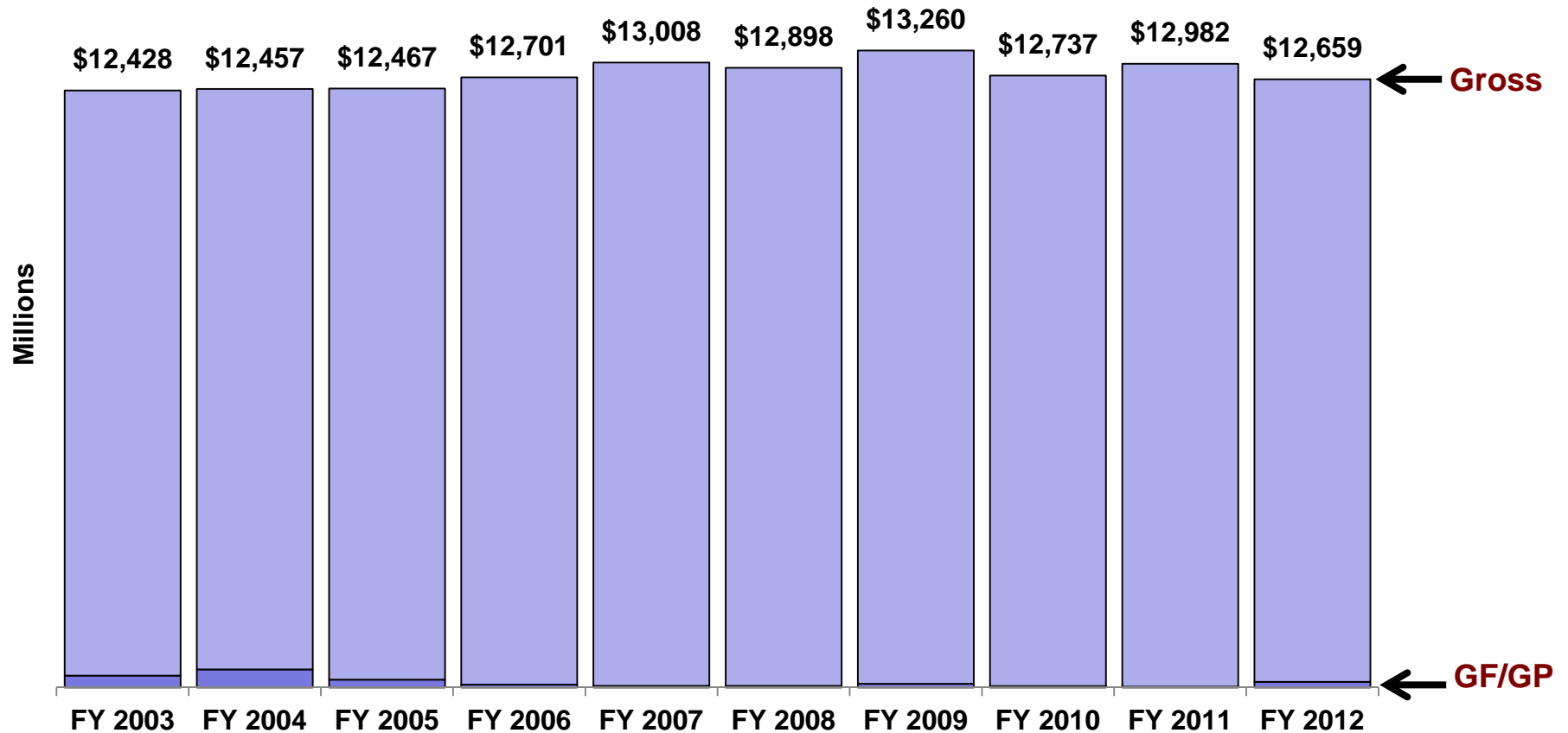
School Aid Budget

The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to “maintain and support a system of free public elementary and secondary schools as defined by law.”

--- The Michigan Constitution

School Aid: Gross Appropriations

Total School Aid appropriations have remained fairly flat over the last ten years.
FY 2011-12 gross appropriations are 1.9% than in FY 2002-03.



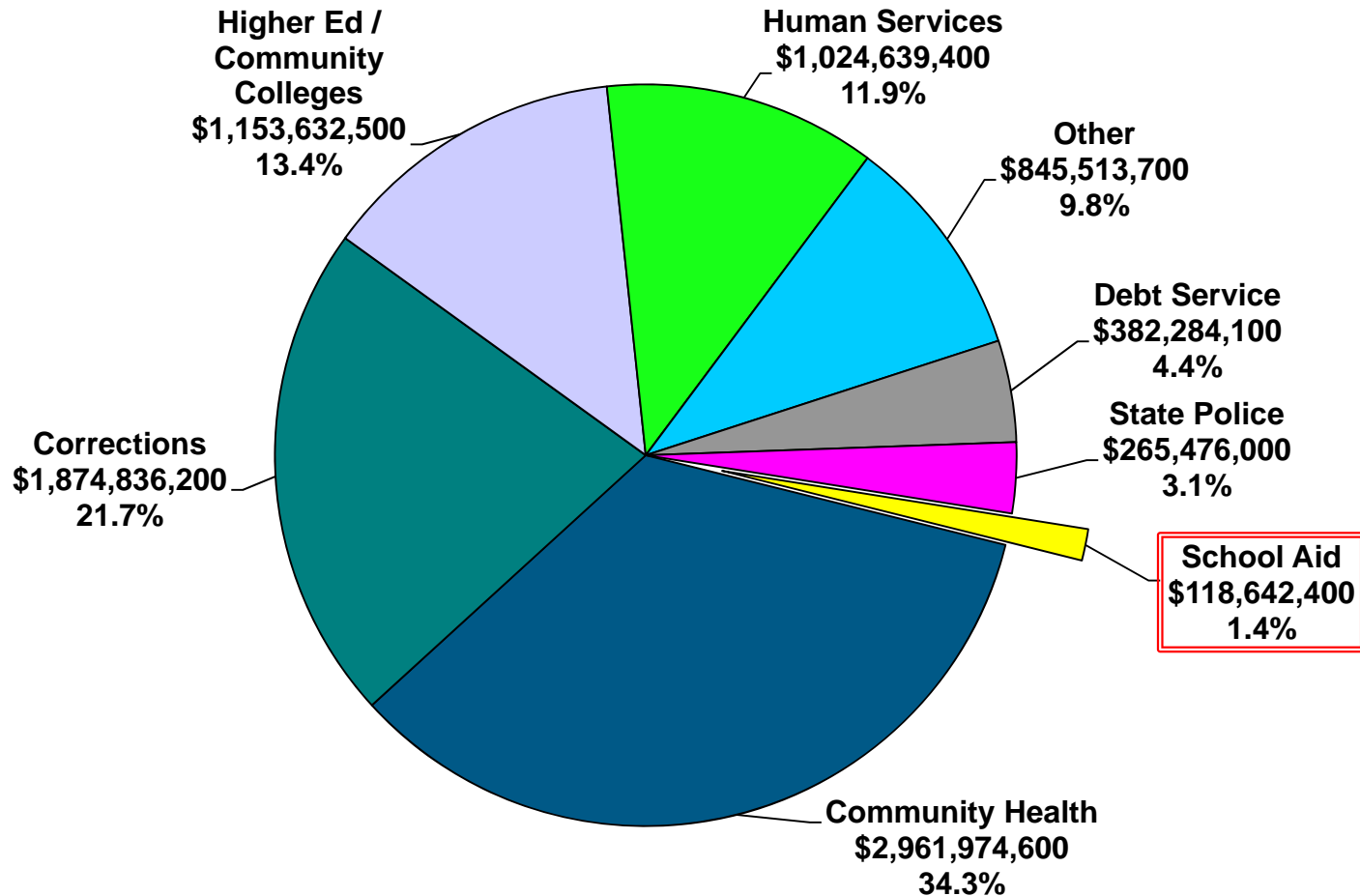
Notes:

1. FYs 2003 and 2004 appropriations are adjusted for mid-year proration reductions.
2. Beginning in FY 2009 figures include a \$342 million shift from local expenditures to State School Aid associated with business tax changes.
3. FY 2009 through FY 2011 each include between \$450 million and \$600 million in contributions from Federal ARRA and EdJobs funding.

School Aid Share of State GF/GP

The School Aid budget makes up 1.4% of the total state GF/GP budget

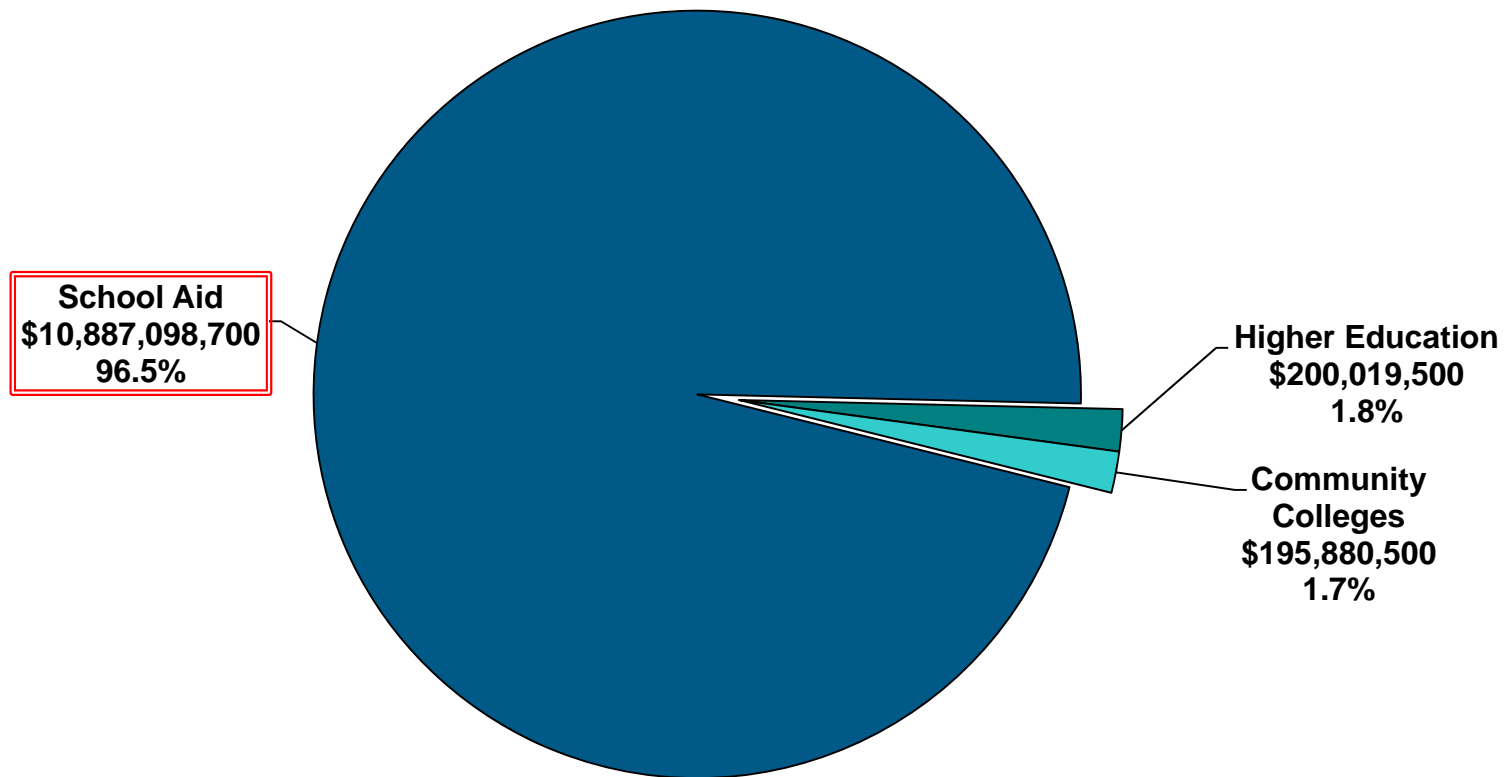
FY 2011-12 GF/GP Total = \$8,626,998,900



School Aid budget Share of School Aid Fund

The School Aid budget receives 96.5% of the total state School Aid Fund (SAF)

FY 2011-12 SAF Total = \$11,282,998,700

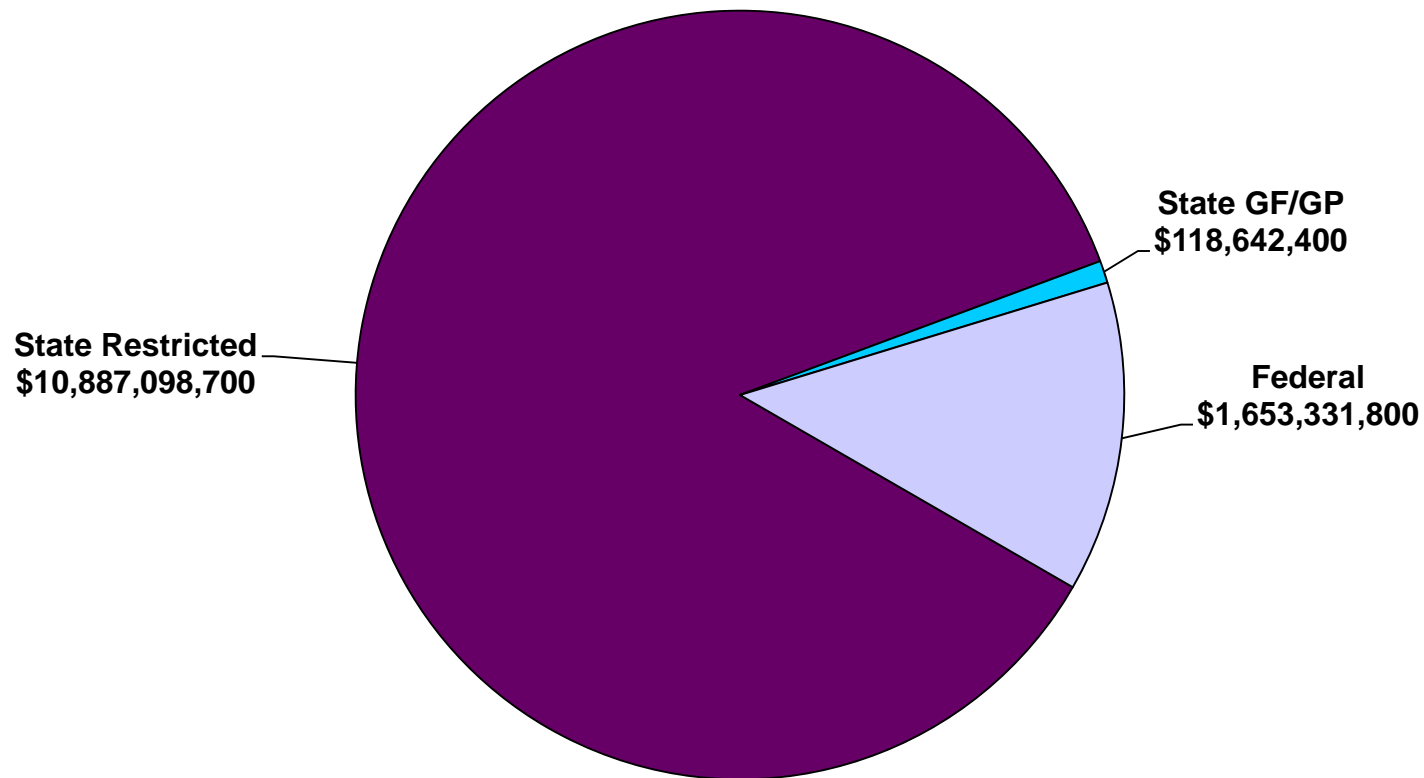


SOURCES OF FUNDING

School Aid Funding Sources

School Aid Fund restricted funds are the largest revenue source in the School Aid budget.

FY 2011-12 School Aid Budget = \$12,659,072,900



SCHOOL AID APPROPRIATIONS

School Aid Appropriations

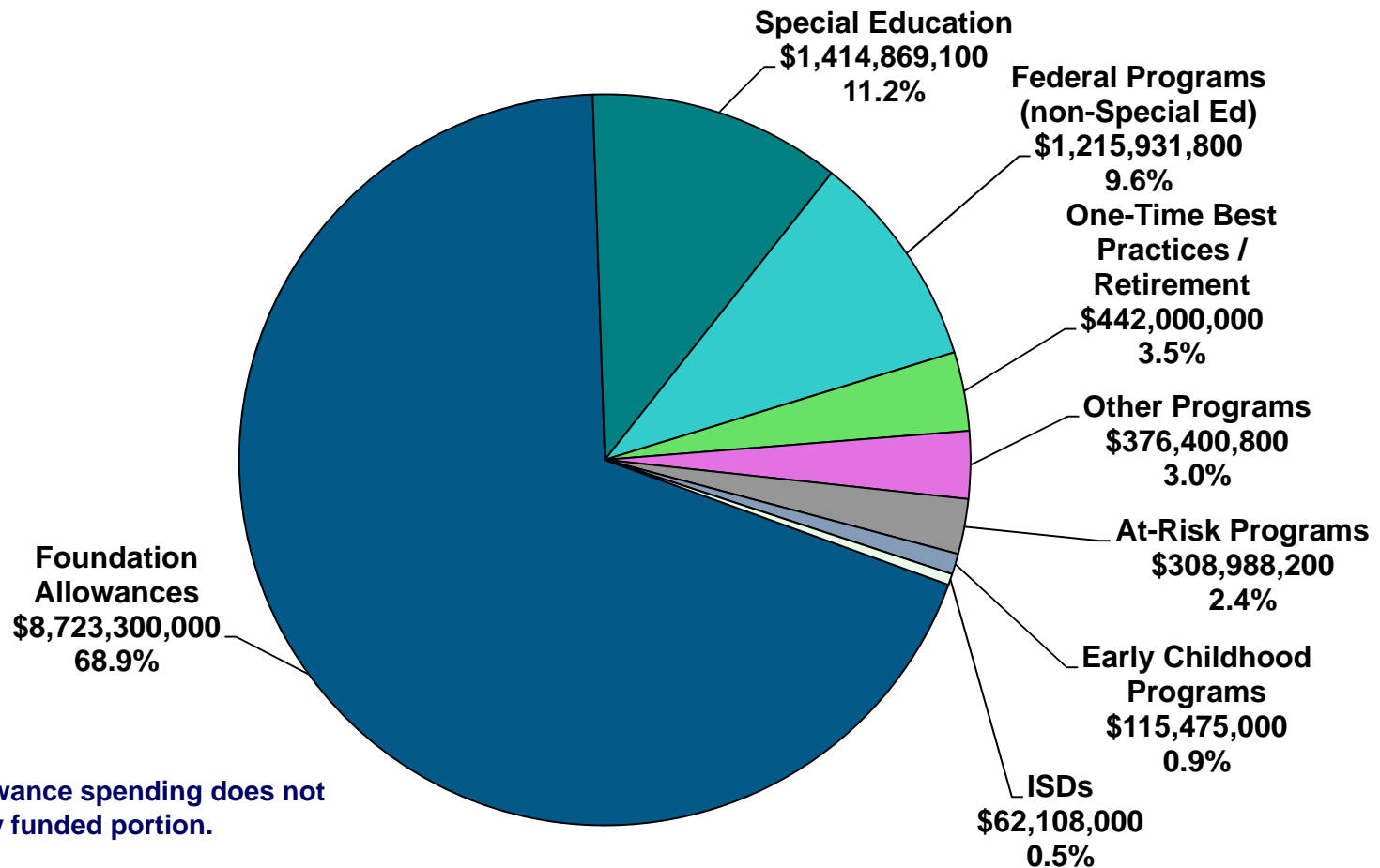
The School Aid Budget includes the following major spending categories :

- **Foundation Allowances**
 - Per pupil payment for general school operations
 - \$8.7 billion in FY 2011-12
 - 69% of the School Aid Budget
- **Special Education**
 - Reimburses districts for a portion of their special education costs
 - \$1.4 billion in FY 2011-12
 - 11% of the School Aid budget
- **At-Risk Programs**
 - Additional funds to help students at risk of academic failure
 - \$309.0 million in FY 2011-12
 - 2% of the School Aid Budget
- **Early Childhood Programs**
 - Provides preschool programs for 4-yr-olds and parenting programs for parents of children ages 0-5.
 - \$109.6 million in FY 2011-12
 - 1% of the School Aid Budget

School Aid Appropriations

Foundation allowances, used for school operations, absorb \$2 out of every \$3 spent.

FY 2011-12 School Aid Budget = \$12,659,072,900



* Foundation allowance spending does not include the locally funded portion.

MAJOR BUDGET ISSUES

Major School Aid Issues

- School Aid Revenues
- Foundation Allowances
- Special Education Funding
- Public School Academies
- Declining Enrollment

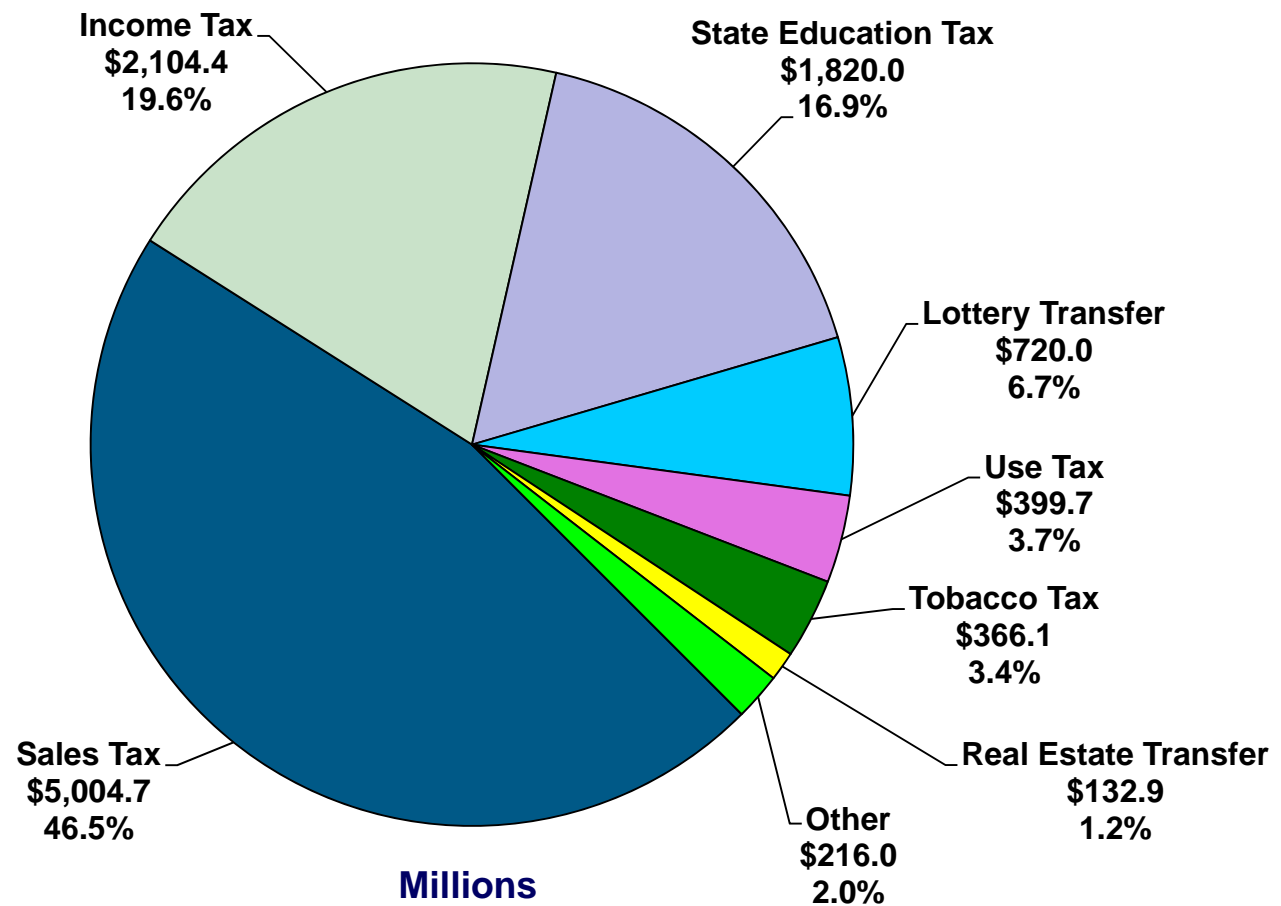
SCHOOL AID REVENUE

School Aid Fund (SAF) Revenue

- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked , or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires SAF to be used exclusively for schools, higher education, and school employee retirement benefits.
- SAF will receive approximately \$10.8 billion in revenue for FY 2011-12.
- Largest sources of SAF revenue are shown on next slide.

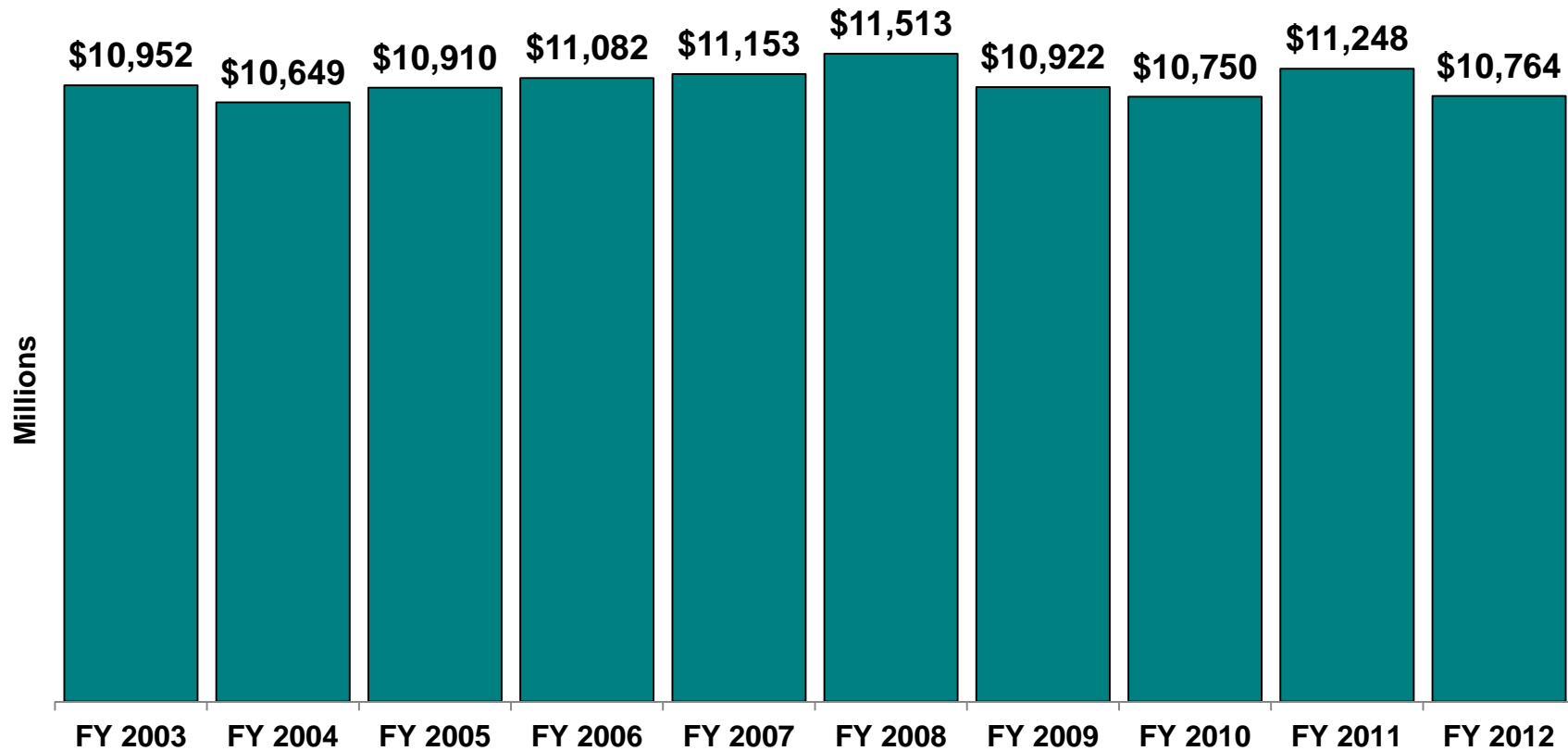
FY 2011-12 SAF Revenue

FY 2011-12 Total = \$10,763.8 Million



SAF Revenue History

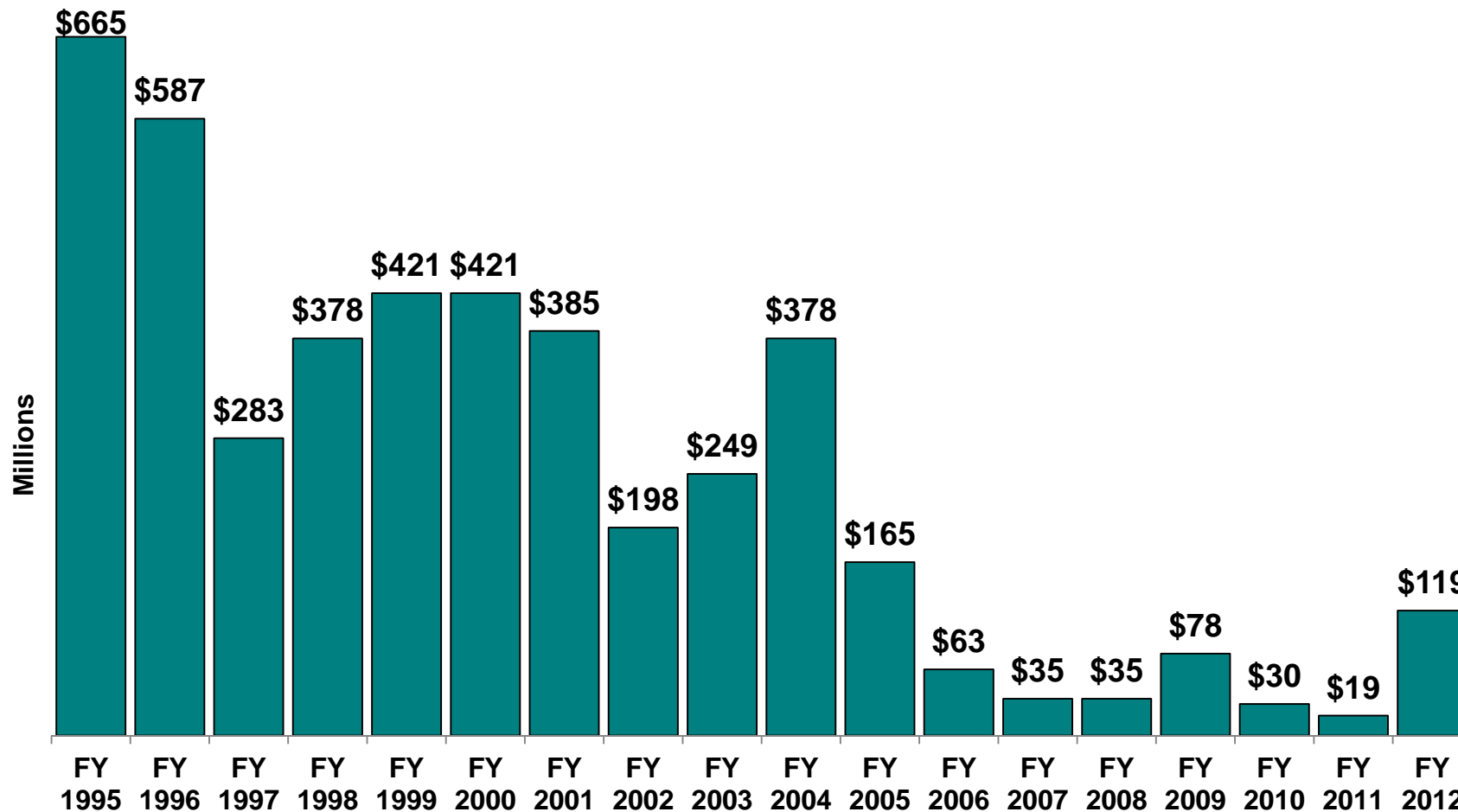
School Aid Fund is estimated to collect over \$10.8 billion in FY 2011-12, down 6.5% from its high in FY 2007-08.



* FY 2012 figures from Jan 2012 Revenue Estimating Conference

GF/GP Contribution to School Aid

GF/GP will contribute \$119 million to the School Aid Budget in FY 2011-12.



School Aid Balance Sheet

FY 2011-12 and FY 2012-13

(in Millions)

REVENUE	<u>Jan-12 YTD FY 2011-12</u>	<u>Jan-12 EST FY 2012-13</u>
School Aid Fund (SAF) Balance	\$724.9	\$142.3
January 2012 Consensus SAF Revenue Estimates	\$10,763.8	\$11,055.0
GF/GP Grant to School Aid	\$118.6	\$18.6
<u>Federal Aid</u>	<u>\$1,653.3</u>	<u>\$1,653.3</u>
TOTAL REVENUE	\$13,260.6	\$12,869.2
 EXPENDITURES		
K-12 Appropriations FY 12/ Current Baseline FY 13	\$12,659.1	\$12,196.3
<u>Estimated Adjustments (Jan Consensus)</u>	<u>\$63.3</u>	<u>\$54.3</u>
TOTAL K-12 EXPENDITURES	\$12,722.4	\$12,250.6
 CCs/Higher Ed EXPENDITURES	 \$395.9	 \$395.9
ESTIMATED YEAR-END SCHOOL AID FUND BALANCE	\$142.3	\$222.7

FOUNDATION ALLOWANCES

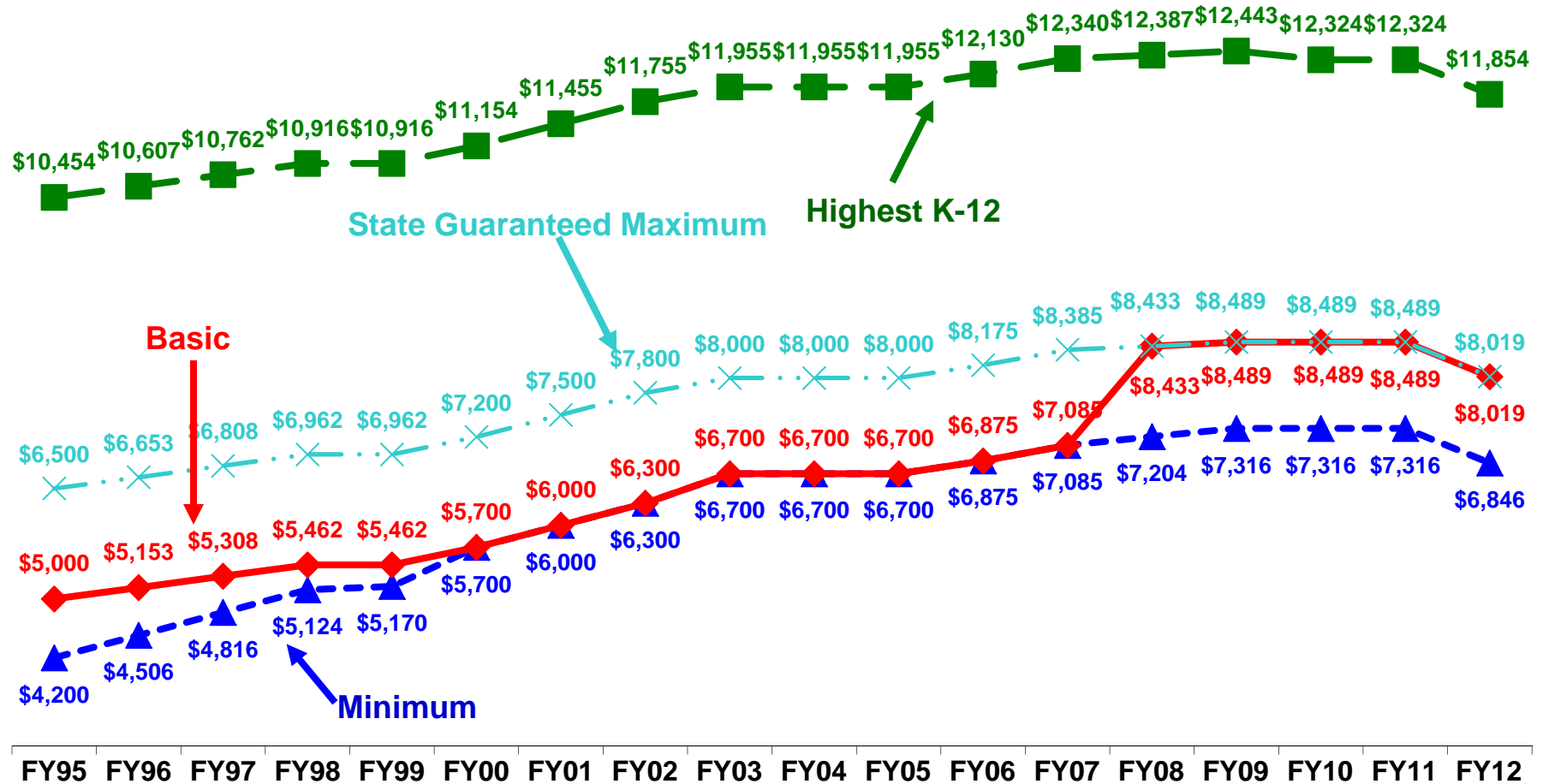
Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations created as part of the “Proposal A” school finance reforms in 1994-95.
- Districts receive a foundation allowance (per pupil funding amount) initially determined in 1994-95, based on what the district collected from both state and local funds on a per-pupil bases in 1993-94.
- Initial 1994-95 levels:
 - Minimum Level of funding established: \$4,200
 - Basic Level determined: \$5,000
 - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500.
- Varies for K-12 districts from a low of \$6,846 per pupil to a high of \$11,854 in FY 2011-12.

Foundation Allowance History

Growth Since Proposal A

In FY 2011-12 the foundation allowances for all districts were reduced by \$470 per pupil, which was the first time since Proposal A they had been reduced other than one-time prorations or reductions.



“Basic” Foundation Allowance

- The “Basic” foundation allowance was a minimum goal established in 1994 as part of the Proposal A reforms, and it is set by the Legislature each year as a target per-pupil funding level.
- In FY 1999-2000, all school districts in Michigan reached the Basic foundation allowance, after which point all districts received the same annual increases except for two years in which additional “equity” payments were made to those at the Minimum to decrease the funding gap between those at the top and bottom.
- In FY 2007-08, the legislature re-set the Basic foundation allowance to equal the State Guaranteed Maximum foundation and reinstituted the 2x formula under which districts at the bottom receive twice as much an increase as those at the Basic or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.

Foundation Allowance

State/Local Funding Mix

- Each district levies 18 mills on non-homestead property.
- State calculates local revenue from the 18 mills on a per-pupil basis.
- State deducts per-pupil local revenue from the lesser of the district's foundation allowance or state guaranteed maximum per pupil amount.
- Districts above the state guaranteed maximum (hold harmless districts) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance.

Equity Among Districts

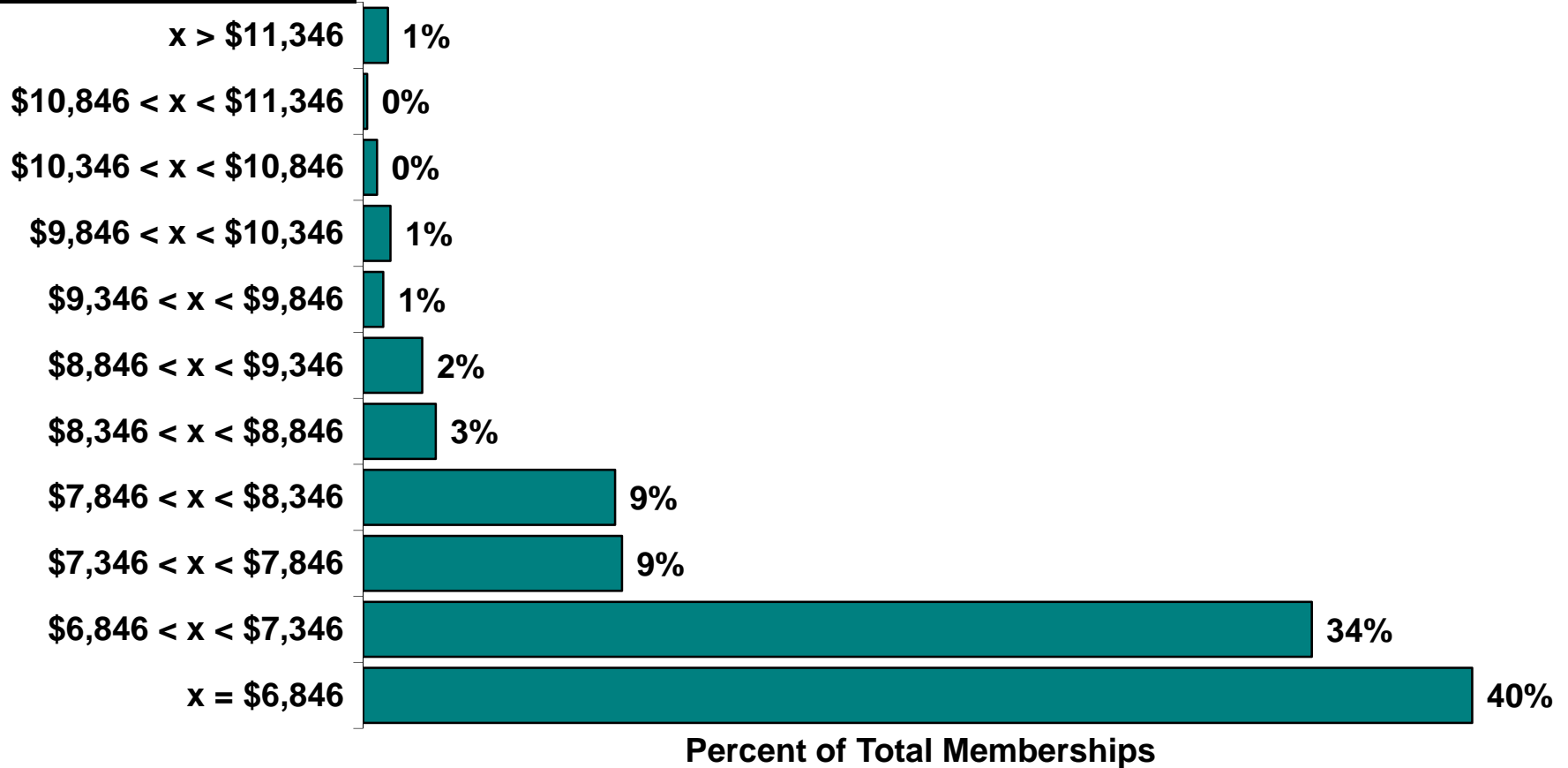
- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost \$6,900 or 3:1.
- In FY 2011-12, the difference between the highest and lowest K-12 district is \$5,008, less than 2:1.
- In FY 1994-95 there were 356 districts and public school academies below the Basic foundation allowance.
- By FY 1999-2000, all districts and public school academies were at or above the Basic foundation allowance.
- In FY 2011-12, there are 394 districts at the minimum foundation allowance, and 44 hold harmless above the new Basic, with everyone else in between.

Equity Among Districts

FY 2011-12 Pupil Distribution

72% of pupils are concentrated in districts with a foundation allowance at or within \$500 of the minimum foundation \$6,846.

x = Foundation Per Pupil



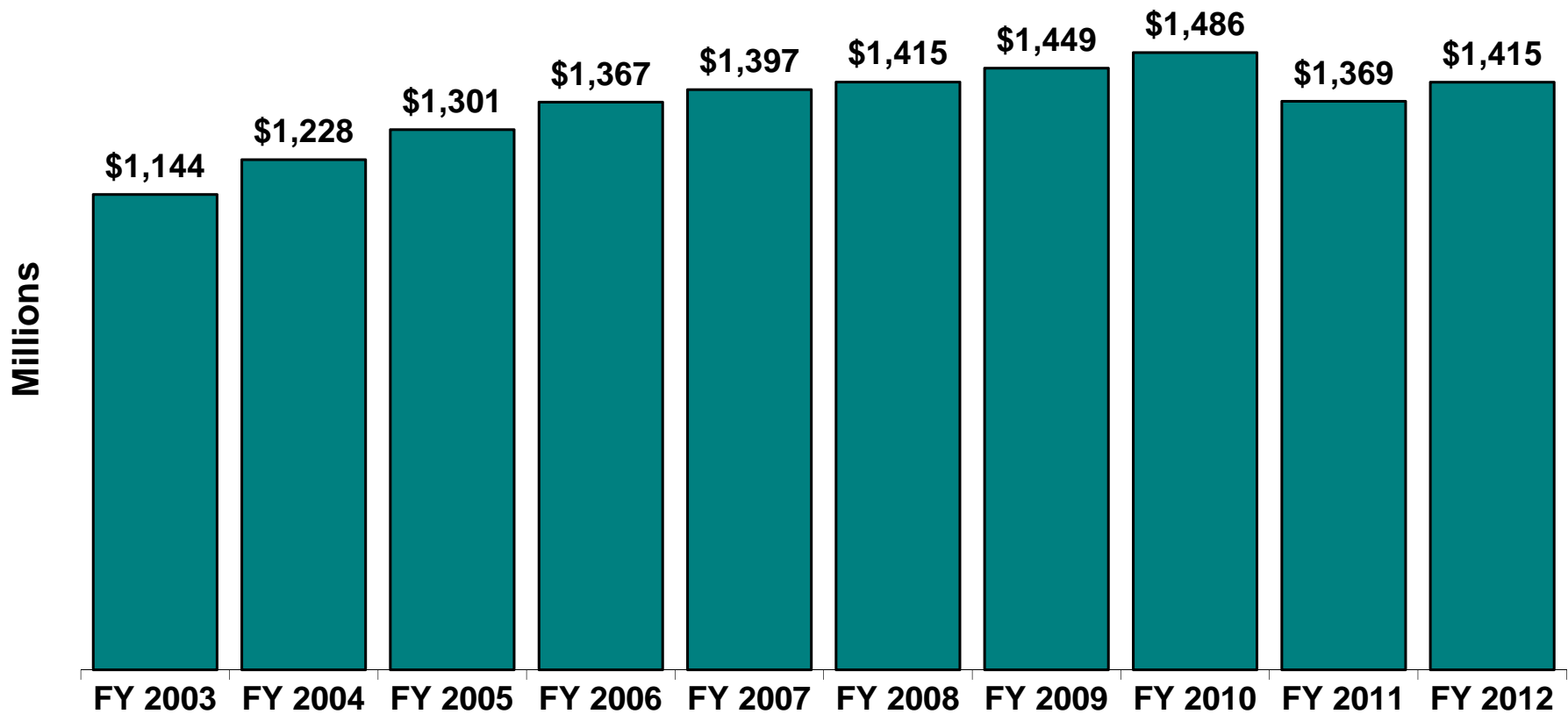
SPECIAL EDUCATION FUNDING

Special Education Funding

- **Second largest School Aid appropriation in FY 2011-12**
 - **\$977.5 million state dollars**
 - **\$437.4 million federal dollars**
- **Reimburses school districts for the costs of educating special education students.**
- **Required reimbursement rates determined by the Michigan Supreme Court in *Durant v. State of Michigan* in 1997:**
 - **28.6138% of Total Special Education Costs**
 - **70.4165% of Total Special Education Transportation Costs**

Special Education Appropriations

This categorical grew by 24% between FY 2002-03 and FY 2011-12.



PUBLIC SCHOOL ACADEMIES

Public School Academies (PSAs or Charter Schools)

- **A public school academy is a special type of public school formed by individuals or groups of individuals to use a special educational approach or serve a particular school population.**
- **Public school academies have been in existence since FY 1994-95 in Michigan.**
- **Charter schools are authorized to operate by universities, community colleges, intermediate school districts, and local school districts.**

Facts About Public School Academies

- **Number: 256 schools**
- **Pupils: 119,840 pupils in PSAs**
- **Average size: 470 pupils per school**
- **Percent of pupils in PSAs: 7.8% of public school students**
- **The number of public school academies that state universities may authorize is currently limited to 150 in FY 2011-12 but will increase to 300 in 2013 and to 500 in 2014, after which the cap is eliminated.**
- **PSA FY 2011-12 foundation allowance equals the lower of:**
 - **Foundation allowance of the school district in which it is physically located****OR**
 - **\$7,110 per pupil**

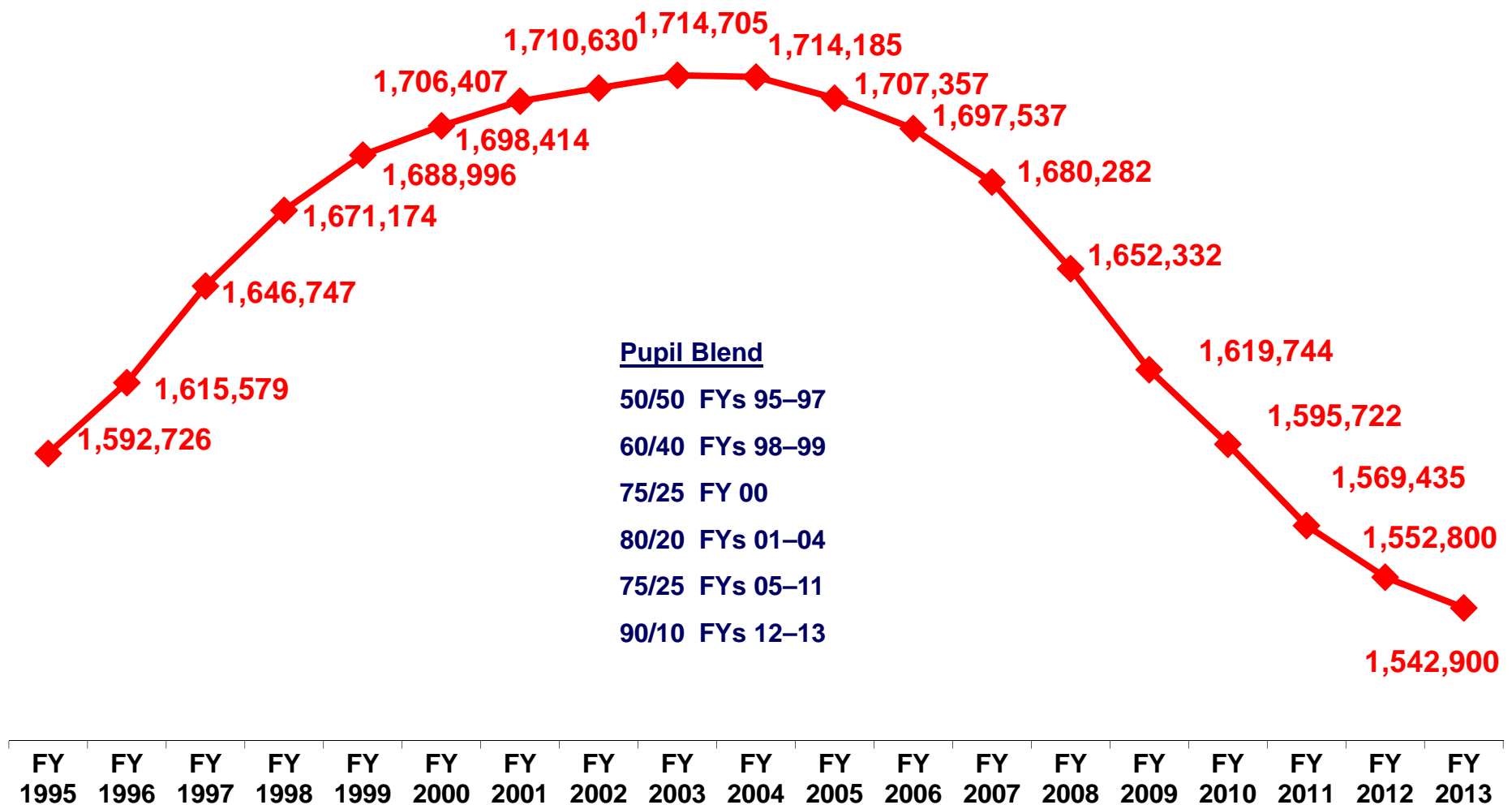
DECLINING ENROLLMENT

Declining Enrollment

- Fewer pupils means a loss of revenue to schools.
- 68% of all traditional (non-PSA) districts experienced declining enrollment from FY 2010-11 to FY 2011-12.
- 29% of PSAs face declining enrollment from FY 2010-11 to FY 2011-12.

Declining Enrollment

Total Pupil Membership Counts



* FYs 12 and 13 figures are from January 2012 consensus estimates.

**For more information about the
School Aid budget, contact:**

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